



HERRITY REPORT



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October 2008

“A Month in Review and Budget Update”

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Budget Update

Fairfax County is facing its most severe financial shortfall in modern history. I felt it was important to give you an update on the county's fiscal condition given the recent news on the economy, the state budget, and the news concerning the County's FY 2009 \$60M deficit and projected FY 2010 shortfall of over half a billion dollars. I will also bring you up to date on my efforts to date to address the County's fiscal challenges both in FY 2009 and 2010.

How did we get here?

Over the last 5-7 years real estate taxes in the County have doubled. This was the result of increases in spending and programs during a period of growth in real estate assessments. According to the Thomas Jefferson Institute, County spending increased one billion dollars greater than the increase in inflation and population growth. While the tax rate was reduced, spending increased significantly and the taxes homeowners paid doubled.

At the same time we have seen a reduction in the percentage of taxes coming from the commercial tax base. Commercial tax payers use less in services than they pay in taxes and help fund services without increasing the tax burden on homeowners. The commercial tax base has dropped from 27% to 17% which has resulted in a larger portion of the tax burden shifting to homeowners. Getting back to the 25% commercial tax base has been a focus of my first year of office and I proposed and the board approved a motion to reaffirm the County's priority of a 25% commercial tax base.

Some of our shortfall could reasonably be expected due to the financial turmoil going on in this country, but our projected shortfall is the largest in the region and despite the efforts of Supervisor Frey and I, the Board failed to prepare for it in FY2009 and continues to fail to take action. We knew some of the fiscal challenges in April as we approved the FY2009 budget but the majority of the board failed to take action. Supervisor Frey and I proposed over \$45M in real spending cuts, the board's only real reduction was a 4% across the board cut in personnel budgets. In addition, just last month I proposed the Board look at specific service reductions in this fiscal year to avoid further across the board cuts. Even as our citizens who faced household income losses were cutting back, the majority of the board again failed to act to cut back.

Board response to the budget crisis

The response to the budget challenges to date has been limited to community meetings, budget reviews and across the board personnel budget cuts.

Line of Business (LOBs), Community Meetings, Employee Meetings – About one year ago, before I was even sworn in, I formed a Citizen's Budget Review Committee (see related article below) to get input from citizens and residents. Many supervisors including myself hold budget meetings after the budget is released in February. For the first time in recent memory the Budget Committee decided this year to hold meetings early in the process to give employees and citizens input into the budget and process. In addition for the first time since the early 90's the Budget Committee is doing a detailed review of the County's Lines of Business (LOBs). While reviewing the LOBs has been of some benefit, I and many other board members have expressed frustration with the sessions. They are focused on specific reductions in FY2010 and proposed cuts largely ignore a review of middle management, process improvements, workload reductions, or consolidations. They are also focused on the short term instead of the long term and few have taken a strategic approach. I have found the employee and citizen sessions the most beneficial. As a CFO, I have found that employees and customers tend to have the best ideas on where the

problems and the fixes are. This early focused attention on spending is new for the Board's Budget Committee this year and a welcome change.

Across the Board Personnel Reductions – Perhaps my greatest frustration with the majority of the board in the fiscal area is its inability to make any reductions except across the board personnel reductions. These reductions attack the budget with a meat cleaver instead of a scalpel and result in unintended consequences like:

- More heavy service cuts for agencies that are already operating efficiently
- Unplanned service cuts as agency heads or vacancies determine where reductions will be implemented
- Impact is more heavily felt on agencies with a high percentage of agency salaries in their total budget (as opposed to contractors or other costs)
- A 10% reduction in personnel spending for our police force impacting their ability to respond to the 12% increase in crime
- Just as economic times are causing an increase in the need for Human Services we are forcing a 10% across the board cut in Human Services personnel

My initial thoughts on the budget

I am very concerned with the Board's current approach to the fiscal crisis. It is past time to act. As a Chief Financial Officer, I know the longer you wait to act the bigger the problem becomes. Our citizens are already reacting by tightening their belts and the County should be as well. Some specific initial thoughts are as follows:

- **Take action now** – During the budget sessions we have identified several common sense cost reductions. At the October meeting I proposed that we take the November 14th budget session to look at what reductions we could implement on early in 2009 in order to proactively react to expected additional bad news in 2009 and get a head start on 2010. I also proposed deferring the furlough day decision until we analyzed the other possibilities. My motion to take action early was defeated. I have discussed this in more detail below in an article below.
- **Combine school and county functions** – Also at the October meeting I proposed hiring a consultant to look at combining school and county functions. This measure was consolidated with a proposal from Supervisor Foust to look at combining administrative functions on the County side. It is unclear how this review will happen, who will perform it, how comprehensive it will be or when it will be performed. I have discussed my proposal in more detail in an article below.
- **Focus on Economic Development** – As I discussed above we need to return to a 25% commercial tax base. This requires a focus on economic development. After much prodding (see previous Herrity Reports) the Economic Advisory Commission is in the

process of being formed. We need to maintain a focus on Economic Development in order to get the commercial tax base back to the level we can afford the level of services our citizens expect.

- **Set priorities** – Our citizens have come to expect a high level of service but we have also doubled the tax burden on our homeowners and businesses. We need to set clear priorities and look for reductions that have minimal impact to our citizens and businesses. We also need to be careful that we do not eliminate critical services to our most vulnerable citizens.
- **Look for efficiencies** – It goes without saying that we need to review what we do and how we do it so that the County can be more efficient in its provision of services.
- **Focus on what has been driving our costs to increase** – Over the last several years the County has adopted policies that have increased its cost of doing business and in some cases has increased the cost to our residents and business. We need to begin a review of what these policies are actually costing the County and our residents and businesses.

Conclusion We are still early in the budget process. The citizen and employee sessions are complete and the LOBs are almost complete. The County Executive will submit his budget in late February. I do not think we can wait to act and plan to continue to press for current reductions in spending. I will also continue to work with the citizens through my Citizens Budget Review Committee.

Addressing the FY 2009 Shortfall Now

The current economic crisis is having a profound impact on citizens, businesses and governments of every size and level throughout our nation. In fact the impact of actions taken by our citizens as they make decisions around their kitchen table and our businesses as they respond to the economy are having an impact on the revenues of Fairfax County as they delay or forgo purchases. Over the last several months we have invested a significant amount of time addressing next year's declining revenue, next year's anticipated shortfall and actions this board will need to take in FY 2010. The County Executive's announcement last month that we are facing a \$58.2 million deficit for the current fiscal year drives home the message that we can no longer afford to only focus on next year's financial problems.

To date our reaction to the need to reduce spending has largely been across the board spending cuts. By far the largest reduction in spending has been across the board reductions in agency salary budgets – four percent to balance the FY 2009 budget in the Adopted Plan and an additional three percent and a furlough day to balance this year's shortfall. This is on top of the

built in three percent vacancy rate. The County Executive has indicated that these cuts are likely to have service impacts.

To a point across the board reductions in salaries can force agencies to become more efficient but they can also force unintended consequences. As examples:

- It will result in more heavy service cuts for agencies that are already operating efficiently
- It results in unplanned service cuts as agency heads or vacancies determine where reductions will be implemented
- The impact is more heavily felt on agencies with a high percentage of agency salaries in their total budget (as opposed to contractors or other costs)
- A 10% reduction in personnel spending for our police force impacting their ability to respond to the 12% increase in crime
- Just as economic times are causing an increase in the need for Human Services we are forcing a 10% across the board cut in Human Services personnel

I believe that by only implementing across the board spending cuts we are abdicating our responsibility as elected officials to make tough decisions. I believe that we are past the time to begin prioritizing and to begin making the service cuts necessary to address the current economic situation.

As a private sector CFO there is an axiom that the longer you wait to make a spending reduction the higher the reduction needs to be. For example a \$100 reduction in an ongoing expense made at the beginning of the year results in a \$100 savings for the year. By the middle of the year it will take a \$200 reduction in an ongoing expense to save \$100 for the year as half the year is gone. Likewise by the fourth quarter it takes \$400 in reductions to get \$100K in savings for that year. The point is the sooner you act to reduce the rate of spending the greater the savings.

So far in our budget process for FY2010 we have had several citizen and employee sessions. In the LOBS process 15 different agencies have come before us with their proposed budget cuts of up to 15% for FY2010. In an ideal world we would finish this process before determining our priorities on where to cut services.

However, in today's uncertain economic climate I don't believe it is prudent for us wait to complete the budget process in April to make reductions. Our citizens, our businesses and the Commonwealth of Virginia are not waiting. Although the County Executive has built in some cushion, I fully expect we will have to make additional cuts in the near future. As I discussed earlier the longer we delay the decision to cut services the deeper and more difficult the cut will be. I do not believe we will be able to get by with another across the board cut to agency salaries. If it turns out the service reductions are not needed this year it is clear they will be needed next year.

At the October board meeting I proposed that we amend the LOBS schedule and make the November 14th session a meeting devoted to this fiscal year and service cuts that can be made this fiscal year. One example of a service reduction that I believe can be made before July 1st of next year is the recommendation from our Library Director, Sam Clay, to close the fourteen community libraries on Friday and reduce the hours of operation on other days. This will only have a minimal impact on services to our constituents because the hours at the eight regional libraries will remain unchanged. In his excellent presentation, Sam Clay, Fairfax County Library Director proved to be a good steward of the taxpayer dollar by offering up proposed cut that represents a minimal reduction in a service provided to our citizens but at the same time saves the taxpayers a significant amount of money. By making reductions on January 1 or phasing it in between now and March 31 we can reduce expenditures this year by \$2.5M. Next year they could save \$5M.

While every expenditure in the budget has a large number of constituents and every expenditure in the budget can be justified as necessary and needed, the decision to act now is imperative. These spending reductions and decisions to prioritize will not be easy but they are necessary and cannot be put off.

At the October meeting, I moved that we delay the planned furlough until the November 17 meeting to look at other options, amend the Lines of Business Review Schedule and make the November 14th session a meeting devoted to reductions and service cuts that can be made in the near future and that the County Executive prepare a list of potential service reductions based on input from members of the Board of Supervisors, Agency heads, the LOB reviews, citizen feedback and employee feedback for presentation at the meeting on the 14th.

Unfortunately my motion failed. Only Supervisor Frey supported the need to act now. I fully expect we will have additional shortfalls in FY2009. We will have left ourselves with no time to act which will limit our ability to react.

Protecting the Rights of Voters Using Federal Write in Absentee Ballots

As many of you know I held a press conference on Thursday, October 23 at the West Springfield Government Center with four members retired members of our armed services regarding the setting aside of federal write-in absentee ballots at the office of the Fairfax County General Registrar. Prior to my press conference over 98% of the FWABs had been set aside because they did not include an address for the witness. There is something clearly wrong when over 98% of ballots are set aside. Please see the Special Herrity Report on the issue at http://www.fairfaxcounty.gov/springfield/pdf_files/herrity_report/military_voter_rights.pdf.

This issue was resolved just after the last Herrity Report when the Attorney General's position was adopted by the Virginia State Board of Election. The State Board of Election directed all county registrars to count the absentee ballots if they did not have the address of the witness. I was happy to be an active part of the effort to have the votes of our civilian and military men and women overseas to be counted.

At the November 17th board meeting I co sponsored a board matter to address some of the issues we encountered during the absentee in person voting leading up to the November 4 election. This will be covered in the next issue of the Herrity Report.

Citizen's Budget Review Committee Update

An integral part of the budget process for me is my Citizen's Budget Review Committee. We have held numerous meetings since I took office in January and I have found that bringing together a broad group of citizens and taxpayers is extremely helpful as I develop my budget policies and recommendations.

Since the response from citizens wanting to be involved in this committee has been extremely positive we have decided to break the committee into several subcommittees that will look into key areas of our government for spending reductions and efficiencies.

The subcommittees are:

- Competitive Outsourcing
- School Budget
- Facilities & Capital Improvements Program
- Organizational Structure of the County
- Programmatic Evaluation

I have identified a citizen to each lead one of the subcommittee's and to organize the meetings. These subcommittees will examine their specific areas of the budget between now and early 2009 and then report back with their budget recommendations. They will then follow these areas throughout the budget process.

If you would like to get involved in one of these subcommittees or just have a general question please contact Christian Deschauer of my staff at Christian.deschauer@fairfaxcounty.gov or 703-451-8873.

Consolidation of School and County Services

In both 1992 and 1996 there were internal reviews to look at consolidating County and School services. As a result of these reviews the county and schools have successfully combined several services and provided efficiencies to the benefit of the taxpayer. For example combining the County and School health insurance programs saved the Fairfax County taxpayers a significant amount of money. I am also aware that the County Executive and the school system are coordinating the new financial and payroll systems to provide efficiencies. I believe these efforts will also provide taxpayers with efficiencies.

However, I believe there are additional areas where we can consolidate school and county services and gain efficiencies. I am also fully aware that consolidations do not always result in efficiencies and that consolidation is not the best answer in all cases. I believe at least two areas that should be looked at are school security and attorney services. The Schools outsource much of their legal work. The county currently provides legal services to the Park Authority and the Redevelopment and Housing Authority. While some of the schools legal work is specialized and will likely continue to need to be outsourced, we should investigate how much of it could be done efficiently by our County Attorney and his staff.

As we look to close the \$500 million shortfall for FY 2010 we should not be passing up the opportunity to take an in depth look at the potential efficiencies that could be gained by consolidation between the county government and the school system. Both the county government and the school system have departments that perform many of the same functions and consolidation of these departments could provide numerous opportunities for increased efficiencies. In many cases, including the planned financial and payroll system, consolidation will not provide benefit until after FY2010. I believe it is important that we begin a thorough review of the potential efficiencies as soon as possible.

Because the consolidation of services typically provokes protectionism on both sides of the consolidation, I suggested we hire an outside consultant to look at potential areas for consolidation based on best practices and the efficiencies that result. The consultant would also look for county services that could be more efficiently performed by the schools.

My motion that the Board direct the County Executive to hire a consultant to conduct a thorough examination of both the county government and the school system and to make recommendations on areas where consolidation would create efficiencies and save tax dollars was defeated but part of it was included in a motion by Supervisor Foust to review the consolidation of administrative services. It is unclear how this review will happen, who will perform it, how comprehensive it will be or when it will be performed.

Foreclosure Town Hall Meeting

The country and the county are going through some very difficult financial times with the credit crisis and the economic downturn that we have been witnessing over the last couple of months. This crisis has hit many people all over this nation very hard, and many have had their savings, their houses, and their lives harshly affected by this situation. We in Fairfax County are no different, and although usually we fair better than most of the other regions around and feel minimal impacts of economic downturns, we have not come away from this current crisis unscathed. That is why on October 16th we hosted an Foreclosure Town Hall Meeting in regards to the foreclosure crisis at the Seoul Korean Presbyterian Church in Fairfax Station.

The event was coordinated by my office and was aimed at presenting a forum for the community to come to in order to receive information, help, and advice with the foreclosure crisis. I would like to report that the event was a success with many individuals and families attending and getting help with their foreclosure needs. With the help of the non-profit Legal Services of Northern Virginia, we were able to dissect many of the issues surrounding the crisis, and to inform people of things to look out for – the many warning signs to look out for, such as scams and bad lending practices, as well as precautions that one can take to try and avoid getting scammed. Legal Services of Northern Virginia gave one on one advice to many of the attendees, and have reported back to us that they are continuing to give support and work with people that attended our town hall meeting.

We held this meeting to try and help those that are having problems with the foreclosure crisis, and the bottom line is that we would like to keep people in their homes where possible.

I feel like we have come away from this very successfully, and with the help of the non-profit Legal Services of Northern Virginia have taken an active role in providing a path forward to many of the people that attended the meeting, as well as highlighting a path to getting help to many others.

Foreclosure Fraud Warning Signs

- Companies offering to buy your house off of you and rent it to you with the option to buy it back later
- Companies that offer to give you some money now to just sign your house over to them
- Companies telling you that foreclosure can be ailed by declaring bankruptcy
- Overly complicated contracts that are hard to understand
- Companies that ask you for an upfront fee

You can contact Legal Services of Northern Virginia at their main office in Falls Church at (703) 778-6800 or at their office in Fairfax at (703) 246-4500 if you need help. You can also

find them online at <http://www.lawhelp.org/program/1569/index.cfm?pagename=homepage>. You can also call my office for a referral.

Designating Old Keene Mill Road a Blue Star Memorial Highway

Earlier this year, I was approached by the Springfield Acres Garden Club who was interested in extending the existing designation of Old Keene Mill Road as a Blue Star Memorial Highway from its current termination at Accotink Creek westbound to the Fairfax County Parkway. It took several months, but with the help of the Fairfax County Department of Transportation, a resolution from the Board of Supervisors and the NOVA District of VDOT-- and especially Mrs. Linda Guest of the Springfield Acres Garden Club-- Old Keene Mill Road is now a Blue Star Memorial Highway from the Mixing Bowl in Lee District all the way to the Fairfax County Parkway.

The Blue Star Memorial Program was started in the 1940s by the National Council of State Garden Clubs to honor service men and women. They would beautify roadways by planting flowers and trees as a living memorial to the men and women who will serve, are serving, or have served in the Armed Forces. The "Blue Star" portion of the designation refers to the blue star in the service flag and was selected for the memorial because it was used during World War II on flags and homes of families that had sons or daughters in the service. Large metal markers and signs are placed periodically along the length of designated highway; the signs in the Springfield District are currently located near St. Bernadette's Church in Springfield and Koziara Drive in Burke. Keep an eye out for the daffodils planted by the Springfield Acres Garden Club near the signs this spring!

Improving Traffic and Pedestrian Safety at the Legato Road/Post Forest Drive Intersection

Over the past several months, my office has been contacted by residents concerned about safety issues at the intersection of Post Forest Drive and Legato Road. I have driven through the various approaches of the intersection and agree that it definitely needs immediate attention. Last month I met with Virginia Department of Transportation (VDOT) and Fairfax County Department of Transportation (FCDOT) staff, and a representative from Delegate Shannon's office concerning the possibility of a traffic signal at the location as well as to discuss what else can be done to improve vehicular and pedestrian safety at the location.

At the meeting, VDOT shared that it ran a traffic signal study at the location in late April and that the intersection did not meet any of the warrants required for a signal. A number of options were considered but VDOT has ultimately put forth the proposal to place a multi-way stop at the intersection with improved pavement markings, including a crosswalk across Post Forest Drive.

VDOT made it clear that the placement of a multi-way stop here would not preclude installation of a signal in the future. Further, the money that the developer put in escrow for a traffic signal will remain in escrow until a signal is warranted at the intersection.

VDOT tasked me with confirming that the surrounding community supports this proposal before it moves forward on installation. My staff has contacted the leadership of the communities in the immediate area asking whether they would support a multi-way stop at the intersection. Every community that responded shared its support of the stop (with the understanding there would still be the possibility of a signal in the future). If the majority of communities are in support--the feedback so far has been positive-- the new pavement markings and multi-way stop could be in within six weeks from the date VDOT is notified of the community's approval.

SOAR West Springfield Town Hall Meeting

On October 28 **SOAR West Springfield** – Spartans **O**rganized for **A**ction on **R**enovation – held a town hall at West Springfield High School to discuss the current conditions at the school and the urgent need to have WSHS included in the next CIP. This is important not only to allow the school to begin its renovations as soon as possible but to also get these renovations completed before WSHS celebrates its 50th anniversary in 2016. I appreciate the many elected officials, students, parents, and faculty that attended the meeting including School Board members Liz Bradsher, Dan Stork, Tessie Wilson; Delegates Dave Albo and Dave Marsden, and State Senator George Barker.

It is important that the community continues to have an open dialogue about this important issue and that we have the continued support from citizens, community groups and elected officials. If you would like to get involved please visit **SOAR's** website at www.soarwestspringfield.com. The **SOAR** website also contains important updates on the progress.

Cardinal Plaza Shell – Penny for West Springfield HS during November

A special thanks to Scott Brown of Cardinal Plaza Shell (located at the intersection of Old Keene Mill Rd and Rolling Rd) for donating one penny for every gallon of gas purchased during the month of November to West Springfield HS. The money will go towards a new electronic sign and durable benches and picnic tables. So if you are in the area please fill up at Cardinal Plaza Shell and help out WSHS!

Public Hearing on the Residences at the Government Center – Monday, December 8 at 4:30 PM

The Board of Supervisors will hold a public hearing on Monday, December 8, 2008 at 4:30 p.m. in order to receive comment on the comprehensive agreement for the development, construction and operation of "The Residences at the Government Center" with JPI Development Services, L.P. The comprehensive agreement, which includes the ground lease and the contract to the ground lease, has been posted on the county web site by the Department of Purchasing and Supply Management and can be viewed at <http://www.fairfaxcounty.gov/dpsm/solic.htm>. The comprehensive agreement is the result of the county's Request for Proposal (RFP) seeking qualified developers to ground lease, develop, construct and operate an innovative, high-quality, mixed-income, rental housing community on a portion of the county's 86.4 acre Government Center Campus for workforce housing. In accordance with the Public-Private Educational Facilities and Infrastructure Act of 2002, the County RFP was competitively solicited from November, 2006 through February 2007. The conceptual layout of the project consists of approximately 270 apartment units in a 4-story configuration, with a parking garage located in the middle of the residential buildings. The proposed unit mix includes 39 studio apartments, 123 one-bedroom apartments, 93 two-bedroom apartments and 15 three-bedroom apartments.

As *Herrity Report* readers are aware, I am opposed to this project unless it is dedicated to the County workforce as was originally promised to the citizens.

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